

Message Text

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ACTION SS-25

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C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 4941

EXDIS

E.O. 11652 GDS

TAGS: EAID EGY

SUBJECT: JOINT SUPPORT OF EGYPTIAN FOREIGN EXCHANGE PROGRAM AND
UNDERSECRETARY ROBINSON'S VISIT

REF: STATE 111831; CAIRO 4880; STATE 114365

SUMMARY: IN TALK WITH PRIMIN TODAY, HE (A) WELCOMED VISIT BY UNDERSECRETARY ROBINSON TO PROVIDE STATUS REPORT, (B) SOMEWHAT RELUCTANTLY AND NON-COMMITALLY AGREED DISCUSS WITH HIS ECONOMIC MINISTERS NEED FOR A FOREIGN EXCHANGE MANAGEMENT SYSTEM AND POSSIBILITY OF REQUESTING IBRD HELP TO DEVISE ONE, (C) PROMISED INSTRUCT HIS MINISTERS STOP MAKING PREMATURE DISCLOSURES TO DIPLOMATS AND PRESS OF OUR MULTILATERAL CONCEPT, AND (D) EXPRESSED DISAPPOINTMENT AT LACK OF RESPONSE TO DATE TO GOE "OPEN DOOR" POLICY, SAID HE PLANS TO AMEND PRESENT INVESTMENT LAW, AND EXPRESSED APPRECIATION FOR EMBASSY PREPARED INFORMAL PAPER ON IMPROVING EGYPTIAN BUSINESS CLIMATE. HOWEVER, PRIMIN CLEARLY NOT WELL VERSED IN ECONOMIC MATTERS AND RELUCTANT TO COMMIT HIMSELF. DESPITE LACK OF FIRM RESULTS, MEETING WAS A USEFUL EDUCATIONAL DEVICE TO GET PRIMIN TO EXERCISE THE NECESSARY LEADERSHIP WITH HIS ECONOMIC MINISTERS TO DEVELOP SOUNDER FINANCIAL AND ECONOMIC POLICIES. WOULD BE HELPFUL IF SAUDI AND IRANIAN AMBASSADORS WERE ALSO INSTRUCTED TO SPEAK TO THE EGYPTIANS ABOUT NEED
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FOR AN EFFECTIVE FOREIGN EXCHANGE MANAGEMENT SYSTEM. END

SUMMARY.

1. ACCOMPANIED BY DCM, I CALLED ON PRIMIN MAMDOUH SALEM TODAY TO DISCUSS REFERENCE SUBJECT AND RELATED MATTERS.

2. I FIRST TOLD HIM UNDERSECRETARY ROBINSON PLANS TO VISIT SAUDI ARABIA MAY 19-21 TO DISCUSS, AMONG OTHER THINGS, SAUDI PARTICIPATION IN MULTILATERAL EFFORT TO ASSIST EGYPT IN CURRENT FOREIGN EXCHANGE PROBLEM. IF GOE WISHED, HE WOULD BE PREPARED TO STOP BRIEFLY IN CAIRO ON WAY HOME TO PROVIDE A GENERAL STATUS REPORT ON HIS EFFORTS TO DATE. I STRESSED UNDERSECRETARY WOULD NOT YET BE IN POSITION TO OUTLINE OUR FINAL PLANS. THESE WILL HAVE TO BE WORKED OUT AFTER HIS RETURN TO BE READY IN TIME FOR SALZBURG SUMMIT. PRIMIN WELCOMED SUCH A VISIT BY UNDERSECRETARY TO ENABLE GOE HEAR STATUS REPORT.

3. REFERRING TO OUR CURRENT EFFORTS, I RECALLED UNDER-SECRETARY'S COMMENT WHILE HERE THA US CONGRESS AS WELL AS PROSPECTIVE DONORS WILL WANT TO BE ASSURED THAT GOE IS UNDERTAKING NECESSARY MEASURES TO CONTROL EXCESSIVE IMPORTS. I ALSO RECALLED PRIMIN HAD TOLD UNDERSECRETARY THAT HE RECOGNIZES SOME OF EXISTING SHORTCOMINGS AND INTENDES TO MAKE REFORMS. SINCE WE WERE BOTH WORKING FOR THE SAME PURPOSE, NAMELY TO HELP EGYPT TO OVERCOME ITS PRESENT PROBLEM, WE BELIEVE GOE SHOULD URGENTLY CONSIDER CREATION OF AN EFFECTIVE FOREIGN EXCHANGE MANAGEMENT SYSTEM DESIGNED TO BRING IMPORT EXPENDITURES UNDER BETTER CONTROL IN TERMS OF PRIORITIES, TIMING ETC. WE, OF COURSE, RECOGNIZE POLITICAL PROBLEMS WHICH GOE FACES AND WHICH MAKE IT RELUCTANT ACCEPT IMF RECOMMENDATIONS AT THIS TIME. WE BELIEVE, HOWEVER, THAT IBRD WHOSE EMPHASIS IS SOMEWHAT DIFFERENT FROM IMF AND WHICH IS DIRECTLY CONCERNED WITH ASSISTING EGYPT'S ECONOMIC DEVELOPMENT, MIGHT BE CALLED UPON TO ASSIST IN THE DEVELOPMENT OF AN ACCEPTABLE FOREIGN EXCHANGE MANAGEMENT SYSTEM. I RECALLED IBRD MISSION IS NOW HERE AND OPINED TEAM WOULD BE RECEPTIVE TO PROVIDE SUCH ASSISTANCE IF GOE REQUESTS IT. GOE AND IBRD COULD TOGETHER WORK OUT A SYSTEM WHICH

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IS BOTH POLITICALLY AND ECONOMICALLY VIABLE. I STRESSED THAT GOE/IBRD COOPERATION IN DEVISING SUCH A SYSTEM WILL BE OF INESTIMABLE HELP TO US IN OUR DISCUSSIONS WITH IRANIANS AND SAUDIS AND OTHERS. THE IRANIANS AND SAUDIS, I HAD TO TELL HIM IN ALL CANDOR, HAD ALREADY EXPRESSED SOME CONCERN ABOUT THE LACK OF SUCH A SYSTEM. IT WOULD BE HELPFUL IF UNDERSECRETARY ROBINSON COULD INFORM THE IRANIANS AND THE SAUDIS THAT

WE HAVE GOE ASSURANCES TO MOVE ALONG THESE LINES.

4. ALTHOUGH PRIMIN LISTENED CAREFULLY, HE WAS CLEARLY RELUCTANT TO TAKE THE BAIT. HE COMMENTED THAT IBRD IS ALREADY WORKING WITH VARIOUS GOE OFFICES. I SAID I KNEW THIS, BUT OUR SUGGESTION GOES BEYOND ANY PRESENT IBRD ACTIVITIES HERE. PRIMIN THEN REMARKED THAT, AS HE HAD EXPLAINED TO UNDERSECRETARY, THE CURRENT LIQUIDITY PROBLEM HAS BEEN CAUSED BY A SERIES OF UNUSUAL CIRCUMSTANCES. ONCE THESE ARE REMOVED, THINGS WILL QUICKLY GET BACK TO NORMAL. HIGH EXPENDITURES HAD BEEN DUE PRIMARILY TO PRICE INFLATION. I SAID THAT ANALYSIS OF THE FIGURES GIVEN US BY THE GOE MINISTRIES SUGGESTS THAT THE BULK OF THE HIGH IMPORT EXPENDITURES RELECTS IMPORT VOLUME RTHET THAN PRICE INCREASES. HE FINALLY AGREED TO STUDY THE MATTER AND TALK WITH UNDERSECRETARY ABOUT IT DURING HIS VISIT. I AGAIN POINTED OUT IT WOULD BE HELPFUL TO THE UNDERSECRETARY TO KNOW GOE IS GOING TO DO THIS BEFORE HIS UPCOMING SAUDI VISIT, SO THAT THE INFORMATION CAN BE USED IN HIS DICSUSSIONS THERE. PRIMIN REMAINED NON-COMMITTAL, BUT REITERATED HE WOULD DISCUSS THE MATTER WITH HIS ECONOMIC MINISTERS.

5. I ALSO MENTIONED OUR CONCERN ABOUT THE POTENTIALLY UNHELPEFUL EFFECT OF PREMATURE DISCLOSURE OF OUR CONCEPT OF DEVELOPING A MULTILATERAL EFFORT TO HELP EGYPT. I HAD BEEN DISTURBED, FOR EXAMPLE, TO HEAR THAT THE EGYPTIAN PRESS HAD BEEN BRIEFED ON WHAT WE HAD IN MIND AFTER THE LAST EGYPTIAN CABINET MEETING. WHILE THE PRESS HAD SUBSEQUENTLY BEEN INSTRUCTED NOT TO PUBLISH THIS INFORMATION, MEMBERS OF THE PRESS HAD APPROACHED ME ABOUT IT. I KNEW THAT AS A RESULT OF THIS BRIEFING, THE PRESS WAS ALSO APPROACHING OTHER DIPLOMATIC

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COLLEAGUES (I PREFERRED NOT TO MENTION ABU ISMAIL'S COMMENT TO THE JAPANESE AMBASSADOR TO AVOID EMBARRASSING THE MINFIN, BUT WILL MENTION IT TO THE LATTER WHEN I SEE HIM, HOPEFULLY, TOMORROW). I POINTED OUT THAT THE MULTILATERAL EFFORT THAT WE CONTEMPLATE WOULD NOT BE IN FORM OF FORMAL CONSORTIUM, BUT WOULD INVOLVE DONOR COORDINATION. IT IS NEITHER IN EGYPTIAN NOR US INTEREST IF IMPRESSION IS GIVEN TO POTENTIAL DONORS BEFORE WE HAVE HAD A CHANCE TO TALK WITH THEM THAT A) THEY ARE GOING TO BE APPROACHED OR B) THE US HAS THE ENTIRE MATTER IN HAD. THE PRIMIN WAS A BIT ABASHED, BUT FULLY AGREED ON THE UNDESIRABILITY OF PREMATURE DISCLOSURE. HE PROMISED TO GIVE THE NECESSARY INSTRUCTIONS TO HIS MINISTERS NOT TO TALK.

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INFO AMEMBASSY JIDDA IMMEDIATE

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6. ADVERTING TO THE GOE "OPEN DOOR" POLICY, I RECALLED ANNOUNCED PURPOSE OF THE NEW EGYPTIAN GOVERNMENT IS TO MAKE THAT POLICY MORE EFFECTIVE. USG HAS FOR SOME TIME BEEN URGING AMERICAN BUSINESSMEN AND INVESTORS TO LOOK AT THE EGYPTIAN MARKET POTENTIAL. LITERALLY HUNDREDS OF AMERICAN BUSINESSMEN HAVE COME TO EGYPT IN PAST 12 MONTHS, BUT I HAD BEEN DISAPPOINTED IN HOW LITTLE HAD COME OUT OF THESE VISITS. BY BRITISH, GERMAN AND JAPANESE COLLEAGUES HAD AFFIRMED TO ME THEIR EXPERIENCE HAS BEEN SIMILAR. AS A RESULT OF TALKS WITH NUMEROUS AMERICAN BUSINESSMEN, I THOUGHT IT MIGHT BE HELPFUL TO THE PRIMIN IN CONSIDERING IN HOW THE "OPEN DOOR" POLICY COULD BE STRENGTHENED IT I OUTLINED FOR HIM SOME OF THE PRINCIPAL REACTIONS OF AMERICAN BUSINESS VISITORS. I MENTIONED A FEW, INCLUDING RATIONALIZING THE EXCHANGE RATE ON CAPTIAL TRANSFERS, AND GAVE AN EMBASSY-PREPARED INFORMAL PAPER SETTING FORTH SIX AREAS IN WHICH THE EGYPTIAN INVESTMENT CLIMATE NEEDS STRENGTHENING. PRIMIN ACKNOWLEDGED HE, TOO, HAS BEEN DISAPPOINTED AT POOR RESPONSE. HE EXPRESSED APPRECIATEION FOR THE PAPER AND SAID HE HAS IN MIND AMENDING THE INVESTMENT LAW. WHILE HE MADE NO SPECIFIC COMMENT ON CAPITAL TRANSFER EXCHANGE RATE,

I BELIEVE HE GOT THE POINT.

7. COMMENT: ALL IN ALL, I CANNOT CLAIM THE MEETING WAS
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A SMASHING SUCCESS. IT WAS CLEAR THAT PRIMIN IS NOT WELL VERSED IN ECONOMIC MATTERS, HENCE HE IS CAUTIOUS TO COMMIT HIMSELF. AT THE SAME TIME ONLY HE HAS THE RANK AND CAPABILITY, IF HE WISHES TO EXERCISE IT, TO PUT ORDER INTO THE CHAOTIC POLYGLOT OF ECONOMIC MINISTRIES AND THEIR OVERLAPPING FUNCTIONS. IN THAT CONTEXT, I REGARD THE MEETING AS A USEFUL EDUCATIONAL EXERCISE, BUT IT WILL HAVE TO BE FOLLOWED UP. AS OF NOW, WE HAVE NO FIRM COMMITMENT FROM THE GOE TO WORK WITH THE IBRD TO DEVISE A FOREIGN EXCHANGE SYSTEM, BUT PERHAPS IT MAY BE OF SOME HELP TO THE UNDERSECRETARY'S UPCOMING MISSION TO SAUDI ARABIA TO AT LEAST BE ABLE TO SAY WE HAVE DISCUSSED THE SUBJECT WITH THE EGYPTIANS AND THEY HAVE AGREED TO STUDY IT. ANY SUPPORT THAT THE SAUDI AND IRANIAN AMBASSADORS MAY BE ABLE TO GIVE IN URGING THE NEED FOR SUCH A SYSTEM WILL BE HELPFUL. WE, OF COURSE, WANT TO AVOID "GANGING UP", BUT WHEN THE THREE OF US ARE BEING ASKED TO PROVIDE HUGE SUMS TO ASSIST EGYPT, THERE IS GOOD REASON THAT WE SHOULD ALL PLAY THE SAME MUSIC.

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